

Economic Justice and Democracy

FROM COMPETITION TO COOPERATION



Robin Hahnel
with a postscript by Noam Chomsky

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Series Editor's Preface

The aim of the *Paths for the 21st Century* series is to encourage new ways of looking at problems, to foster practical approaches to longstanding problems, and to promote the knowledge capable of positively influencing people's everyday lives. The books in this series are intended to give the powerless a greater role in the discourse that strengthens communities without creating barriers between these communities. Toward this end, the "Paths" Project seeks out new ways for future generations to evade the pitfalls of the twentieth century while fostering a spirit of liberation that focuses on dignity and decency for all people.

The Paths Project acknowledges three contending approaches to the use and function of knowledge. The first views knowledge and inquiry as primarily in the service of domination, control, and manipulation of others. This form of knowledge most often results in blind, unquestioning, and dogmatic faith. The second approach focuses on knowledge as merely utilitarian with an ever increasing focus on technical specializations and subspecialization. It assumes a specific cause and solution to a given problem, and pays insufficient attention to the aims and values to which knowledge is ultimately subservient.

It is the third approach that I take as the basis for the Paths Projects. This approach assumes that knowledge and inquiry are directed toward liberation rather than control, seeking to understand the relationships between institutions, systems, problems, and, most importantly, values. This approach ultimately fosters greater democratic discourse and a more progressive social reconstruction. The Paths Project presumes that this

third approach affords us the insight and wisdom necessary for creating dignity and equality and to end the exploitation of one group by another.

Paths for the 21st Century will draw together scholars and activists to create an invisible college, working together and trading ideas to stimulate thinking and discussion about issues affecting us domestically and internationally. It will present radical alternatives concerning what should be changed, and how these changes can be accomplished. In the end, the aim of the Paths Project is to lay the foundation for a new progressivism chastened by the lessons of the twentieth century and reconstructed for the twenty-first century. This is no small goal; it is one that, ultimately, in a democracy, can only be achieved through discussion and a community of inquiry and deliberation. It is my hope that the books in this series will help to begin and contribute to that dialogue without which social justice, personal freedom, and a progressive twenty-first century will never come about.

Marcus Raskin

Institute for Policy Studies and George Washington University

Acknowledgments

This book is the product of working for progressive social change as an economist and activist for almost 40 years. It bears the stamp of more people and more organizations than I could hope to mention, much less do justice to. In particular I want to thank Marcus Raskin for inviting me almost a decade ago to write a book on progressive economics for the *Paths for the 21st Century* series. He encouraged me to examine the thinking of those who fought to replace the economics of competition and greed with the economics of equitable cooperation during the twentieth century for lessons that would help those in the century ahead to achieve what we could not. Without him this book would never have happened. I also thank my editors at Taylor & Francis—Robert Tempio, Angela Chnapko, Tao Woolfe, and Eric Nelson—who sponsored such an ambitious adventure, and who tolerated every delay gracefully. Finally, I thank my graduate assistant at American University, Susan Bush, who offered invaluable suggestions after a careful reading of an early draft of the manuscript.

But mostly I wish to acknowledge the debt we owe to those who have gone before. We must be merciless in our criticisms of our predecessors if we are ever to do better, but while those who come after must learn how to go about things differently to accomplish what we could not, the sacrifices made by tens of millions of people in countless attempts to advance the cause of economic justice and democracy during the twentieth century should never be gainsaid. Those who prove themselves our betters will always owe those who went before a tremendous debt of gratitude.

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Introduction

At the dawn of the twentieth century most critics of capitalism believed it would be capitalism's last. If they agreed on little else, socialists of all stripes expected democracy and economic justice to advance in tandem, replacing a wasteful system based on competition and greed with a more efficient, equitable economy in which workers and consumers planned how to cooperate through democratic procedures. But the more successful heirs to nineteenth-century socialism—twentieth-century communism and social democracy—both failed to advance the cause of economic justice and democracy, and libertarian socialism all but disappeared a third of the way through the century. So instead of hearing its last hurrah, capitalism beat back all challengers in the twentieth century, leaving us with an economy at the beginning of the twenty-first century that is far more technologically advanced and environmentally destructive—but no more equitable or democratic—than it was a hundred years ago.

Communist parties sacrificed economic and political democracy in the name of an economic justice they never delivered. Social democratic parties avoided the totalitarian errors of communism only to water down their commitment to economic justice and worker self-management, and become handmaidens to capitalism. In the end, neither delivered on their promises of economic justice or economic democracy, and both became unwitting accomplices to environmental destruction. As a result, communism had both feet, and social democracy had one foot in the dust bin of history as the door closed on the century each presumed would bear its name.

Criticism of both communism and social democracy from the left was by no means absent during the twentieth century. But no political movement suffered greater decline during the last century than libertarian socialism, which all but disappeared after 1939. No matter how prescient their criticisms of communist and social democratic rivals, libertarian socialists suffered defeat after defeat and became increasingly marginalized and irrelevant. The rise of the new left in the late 1960s and the appearance of “new social movements” in the 1970s and 1980s resurrected some old libertarian socialist themes, but not a new libertarian socialist movement. The collapse of communism and decline of social democracy at the century’s end have stimulated renewed interest in libertarian socialism, but have not led to a full-blown revival of the movement.

Conservatives interpret the demise of communism, social democracy, and libertarian socialism as evidence that critics of capitalism underestimate its virtues and have no better alternative. Conservatives argue that critics misunderstand economic justice and economic democracy, and therefore fail to appreciate how capitalism delivers both while promoting economic efficiency. Conservatives cite the demise of communist and social democratic economies as proof that egalitarian notions of economic justice are incompatible with economic freedom and efficiency. They argue that redistributive demands by the less fortunate violate the economic freedoms of others and kill the geese who lay the golden eggs. Finally, conservatives argue that twentieth-century economic history proves that egalitarian outcomes can only be imposed by totalitarian means, explaining why, in their view, libertarian socialism can never get anywhere.

Economic Justice and Democracy: From Competition to Cooperation provides a different explanation for why things turned out as they have, and offers new ideas about what must be done differently in the century ahead to achieve better results. This book argues that capitalism triumphed in the twentieth century despite the fact that it is grossly unfair, undermines economic democracy, is terribly inefficient, and is destined to destroy the natural environment. This book argues that communism and social democracy failed because they failed to deliver economic justice and democracy, not because economic justice and democracy are utopian dreams in conflict with one another and with economic efficiency. This book argues that libertarian socialists fell into eclipse because they clung to debilitating myths, never learned how to work effectively in campaigns to reform capitalism, and failed to provide a compelling explanation of how workers can manage themselves and coordinate their division of

labor without resort to either markets or central planning, not because human beings are incapable of equitable cooperation. Obviously this interpretation of twentieth-century economic history is at odds with better-known theories. It is certainly at odds with the procapitalist “victor’s history.” That is why there are many chapters to follow, and why there will have to be more books by many others to make the case complete. But before describing the central concern of the book—clarifying what equitable cooperation means, and developing an effective program for achieving it—two disclaimers are in order:

1. While most of *Economic Justice and Democracy* focuses on how to better promote the economics of equitable cooperation, some chapters explore why critics failed to overcome the economics of competition and greed in the twentieth century. However, it is the future, not the past, that primarily interests me. I am no historian. In my professional life I am an economist who specializes in analyzing the predictable effects of different economic institutions and systems. In my political life I am an activist who fights the pernicious effects of competition and greed and promotes the economics of equitable cooperation at every opportunity. I trespass on the turf of professional historians with a great deal of trepidation, and only because my economic analysis led me to a conclusion that begged for an historical explanation: Why were palpably inferior economic systems like capitalism and communism so much more successful in the twentieth century than clearly superior systems of democratic socialism? My excuse for trespassing is I could find no answer in the historical literature that satisfied me.¹
2. Victories can be due to intrinsic strengths, good implementation, or fortuitous external circumstances. Similarly, defeats can be due to intrinsic weaknesses, poor implementation, or inhospitable circumstances. Therefore, proponents of any alternative capitalism defeated in the twentieth century—communism, social democracy, or libertarian socialism—can always blame defeat on poor implementation or unfavorable external factors rather than on intrinsic weaknesses in their program. While I recognize that all three reasons for defeat deserve serious consideration when trying to explain history, I do not afford them equal attention because I am primarily concerned with the future. I focus foremost on intrinsic strengths and weaknesses of communism, social democracy, and libertarian socialism because these are the most important to future

opponents of capitalism. In the case of communism, I ignore not only negative external factors but also misguided practice—both of which contributed to the historical defeat of communism—because I find the intrinsic weaknesses of command planning sufficient to prevent it from ever again playing a central role on history's stage.² In the case of social democracy and libertarian socialism, I pay little attention to the role played by inhospitable external factors, not because they were unimportant, but because there was little twentieth-century activists could do about them, and because many limiting external factors will be different in the century ahead. On the other hand, the role played by poor leadership and practice in the decline of social democracy and libertarian socialism during the twentieth century is of great interest to me. I believe social democracy will continue to play an important role well into the twenty-first century, and I believe libertarian socialist ideas will play an increasingly important role in the century ahead. Therefore, besides intrinsic weaknesses, I focus on poor implementation on the part of social democrats and libertarian socialists in the last century because I foresee a lengthy period during which the two will coexist and collaborate closely in the century ahead.

The Main Argument

The central argument of this book is that progressives need to go back to the drawing board and rethink how we conceive of economic justice and economic democracy. Until we face this intellectual challenge squarely it will continue to sabotage our best efforts to combat the economics of competition and greed. Conservative conceptions of economic justice and democracy are criticized because otherwise it is difficult to dispel popular myths about capitalism. But more importantly, this book argues that liberal notions of economic justice and democracy are flawed, and that continued confusion among liberal and radical reformers about economic justice and democracy will continue to undermine attempts to promote equitable cooperation. After carefully examining competing notions, this book concludes that economic justice should be defined as reward commensurate with sacrifice, and economic democracy should be defined as decision-making power in proportion to the degree affected.

After demonstrating why capitalism, central planning, and market socialism are all incapable of providing economic justice and democracy,

a coherent set of economic institutions and procedures that can deliver economic justice and democracy while protecting the environment and promoting efficiency is spelled out. This participatory economy distinguishes between user rights and income rights to overcome defects in traditional conceptions of private and public ownership of productive assets. It forswears labor markets in order to compensate people fairly for their work, while still providing strong material incentives. And participatory planning avoids the pitfalls of central planning and markets by allocating goods and resources efficiently through a procedure that gives workers and consumers decision-making power in proportion to the degree they are affected by different economic choices.

However a participatory economy is only a guiding vision. After carefully examining legitimate concerns critics have raised about participatory economics as a long-run goal, the final part of the book explores how to promote the economics of equitable cooperation in the here and now through economic reform campaigns and movements that already exist, and through alternative experiments that grow in the cracks where capitalism fails to meet human needs and aspirations. There are suggestions about how to work in numerous pragmatic reform campaigns while remaining true to full economic justice and democracy. There are suggestions about how to broaden the base of existing economic reform movements while deepening their commitment to more far-reaching change. And finally, ideas for how to learn from and expand living experiments in equitable cooperation and better integrate reform work with prefigurative experiments are discussed.

Part I: Economic Justice and Democracy

Chapter 1, “Economic Justice,” compares competing notions of economic justice both inside and outside progressive circles. It is pointed out that conservative and liberal conceptions of economic justice share a common basis—they are both “contribution-based” theories that justify how much people should receive on the basis of how much they contribute. In the conservative view, people should consume according to the contribution of their labor and their productive assets. In the liberal view consumption should depend only on personal contribution, and property income is seen as the source of inequities. It is argued that both views are incompatible with progressive values since contribution is determined by a host of factors over which individuals have little or no control. Consequently, any contribution-based theory of economic justice

will prove contradictory and unsatisfactory, ultimately misleading movements seeking to make economic cooperation equitable.

Instead, after considering crucial issues raised by the conservative libertarian philosopher, Robert Nozick, and the famous liberal philosopher, John Rawls, a radical “sacrifice-based” theory of economic justice is defended: to each according to his or her effort, interpreted as any sacrifice an individual incurs in carrying out his or her economic duties.

Chapter 2, “Economic Democracy,” argues that formal democracy does not guarantee real democracy. Just as universal suffrage does not guarantee that everyone has an equal opportunity to influence political decisions, being “free” to become an employer if one doesn’t like being someone else’s employee, or “free” to apply for a job elsewhere if one doesn’t like the one s/he has, does not guarantee meaningful economic democracy. But neither does giving everyone one vote concerning an economic choice when some people are more affected than others by a decision. Economic democracy is more complicated than either economic freedom or majority rule. Moreover, appeals to property rights do not solve, but merely postpone, difficult issues regarding economic democracy.

This chapter argues for conceptualizing the idea that people should control their economic destinies as “economic self-management,” defined as decision-making input in proportion to the degree one is affected by the outcome. According to this criterion, if an economic decision affects some people more than others, those with more at stake should have a greater say than those with less at stake. This criterion provides a way to resolve conflicts between different economic freedoms and the economic freedoms of different people when they inevitably arise, at least theoretically, without resort to arbitrary rules. While it does not resolve debates over how much different people are affected, it does provide a coherent basis for adjudication.

Chapter 3, “Debilitating Myths,” shows how many twentieth-century progressives sustained themselves with false beliefs that capitalism’s dynamism and technological creativity would prove to be its weakness as well as its strength. Grandiose Marxist crisis theories buoyed the hopes of the faithful in the face of setbacks for progressive organizations and causes, and even less ideological reformers were influenced by the myth that capitalism organized its own replacement. This chapter argues that what is true instead is that free-market capitalism cannot keep itself from devouring the environment, and will not provide even minimal economic security for most of the Third World and a growing underclass in the advanced economies. And even when capitalism is thoroughly

reformed it cannot give people control over their economic lives or reward people fairly for the sacrifices they make. It is argued that, unfortunately, capitalism does not nurture the seeds of its own replacement in the way many of its twentieth-century critics hoped it would. Instead, capitalism fosters commercial values and behaviors, rationalizes exploitation, and teaches myths about its own desirability and inevitability, all of which must be successfully challenged if we are to achieve equitable cooperation. The chapter also argues that for much of the twentieth century the left was plagued by a false belief that economic dynamics and classes were always the dominant forces governing social stability and change. Unfortunately, their mistaken “economism” prevented them from recognizing the nature and power of nationalism, racism, and sexism, and also led to misguided approaches to building coalitions of different progressive social movements.

Part II: Rethinking Our Past

Starting from a clear understanding about what economic justice and economic democracy mean, chapter 4, “Neither Capitalism nor Communism,” highlights the intrinsic flaws in the major economic institutions that dominated the twentieth century: private enterprise, markets, and hierarchical management in capitalist economies, and public ownership, central planning, and hierarchical management in communist economies.

The chapter argues that private ownership under more competitive conditions did stimulate the economic creativity of many of the fortunate, lucky, and able during the twentieth century, but it always failed to tap the creative potentials of the majority and led to inefficient conflicts between employers and employees. The chapter explains why public ownership reduced inequities but did nothing to solve the problem of democratic management and created a new problem: how to monitor the performance of managers appointed by the state. The chapter concludes that under central planning neither planners, managers, nor workers had incentives to promote the social economic interest. Nor did appending markets for final goods to the planning system enfranchise consumers in meaningful ways, as both workers and consumers were systematically deprived of self-management opportunities in centrally planned economies. On the other hand, the chapter explains how capitalist markets were guided by an “invisible foot” as well as an “invisible hand” rewarding those who externalized costs and rode for free, not only those who built better mouse traps and reduced production costs.

Chapter 5, “Social Democracy: Losing the Faith,” describes how social democrats attempted to respond to the failures of capitalism without succumbing to the errors of communism. Particularly during the middle of the century social democrats enjoyed much success winning reforms that significantly reduced the inequities and inefficiencies of free market capitalism. However, while diluting the meaning of economic justice and economic democracy allowed social democracy to expand its electoral appeal into the middle class, it eventually cost them support among the most exploited. Social democrats’ explicit acceptance of a system driven by greed and competition after World War II, combined with decades of backsliding on economic justice and democracy, also undermined their moral authority. Without moral authority or a solid base of political support, social democratic efforts to build a movement for equitable cooperation stalled, and when resurgent capitalism launched an all-out offensive at the end of the century they found themselves unable to defend gains they had worked decades to win. The chapter examines the strengths as well as the weaknesses of social democracy through the writings of two farsighted social democrats, Michael Harrington and Magnus Ryner, focusing on the Mitterrand socialist government in France during the early 1980s and the Swedish model of social democracy in the 1990s.

Chapter 6, “Libertarian Socialism: What Went Wrong?” takes up the story of libertarian socialists. While prominent in the first few decades of the twentieth century, libertarian socialists enjoyed little success in the last two thirds of the century largely because they failed miserably at reform work in advanced capitalist economies. A review of their considerable successes in Russia prior to 1920 and in Spain during the 1930s reveals that libertarian socialists were able organizers who lost their ability to reach out to large segments of the population after their defeat in Spain for reasons that are important to understand, but have been widely misinterpreted by latter-day libertarian socialists. Libertarian socialists also failed to provide a compelling case that a libertarian socialist economy was a realistic possibility. Social democrats and communists had easy answers to the important question: If not capitalism, then what? They could simply point to Sweden or to the Soviet Union. Having no living example to point to, other than a few short-lived experiments in wartime situations, the failure of libertarian socialists to make their vision of equitable cooperation more coherent and concrete inevitably increased popular skepticism that libertarian socialists offered a workable alternative as the “capitalist century” marched on.

Part III: What Do We Want?

In the aftermath of the collapse of communism, those who propose alternatives to capitalism fall into three camps: market socialism, community-based economics, and democratic planning. After explaining why economic vision is important, chapter 7, “Postcapitalist Visions,” offers a critical examination of different versions of market socialism, explaining how they would improve significantly on capitalism, but also how they fail to provide an institutional framework capable of securing the economics of equitable cooperation. The motivations of proponents of community-based economics are praised, but the chapter points out that no vision of community-based economics has been elaborated into a rigorous model, and all versions leave crucial questions unanswered, including how economic relations between separate economic communities that are not entirely self-sufficient would be handled. The chapter concludes with a brief introduction to different models of democratic planning as a prelude to discussions of participatory economics in the two chapters that follow.

Chapter 8, “Participatory Economics,” describes a system of democratic planning known as a participatory economy that can be subjected to rigorous analysis because it has been formalized as a coherent economic model. A participatory economy is a viable set of economic institutions that promote economic justice and democracy without sacrificing efficiency. It is proposed as a long-term goal for those fighting to advance the economics of equitable cooperation. The chapter describes how, in this libertarian version of democratic planning, production can be organized through worker councils, jobs can be balanced for empowerment and desirability, consumption can be based on sacrifices made at work and organized through consumer councils and federations, and self-managed worker and consumer councils can coordinate their activities through a participatory planning procedure in which they propose and revise their own activities in a way that generates equity and efficiency simultaneously. The model of a participatory economy is elaborated in sufficient detail so readers can see concretely why its proponents believe it promotes economic justice and democracy without sacrificing efficiency, but also so skeptics have something specific to criticize rather than only a rhetorical marshmallow to punch at.

This chapter also covers two subjects that were not broached in earlier presentations of participatory economics. It explains how pollution and environmental protection would be handled in both the annual and